ASSET BUILDING
POLICY PROJECT

The Asset Building Policy Project is an initiative of the Community Economic Development Association of Michigan

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Helping Working Families Achieve Lasting and Sustainable Financial Security

TESTIMONY FOR THE SENATE COMMITTEE ON BANKING AND FINANCIAL INSTITUTIONS REGARDING REFUND ANTICIPATION LOANS (RALS) (HB 4166) (HB 4607)

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Good morning Mr. Chairman and members of the committee. Thank you for the opportunity to share with you testimony about refund anticipation loans (RALs) and to voice our support for HB 4166 and HB 4607, which will help educate Michigan families and protect their pocketbooks.

My name is Ross H. Yednock and I am the director for the Asset Building Policy Project. The Michigan Asset Building Policy Project (ABPP) at the Community Economic Development Association of Michigan (CEDAM) strategically coordinates all policy, communication and advocacy efforts of the Michigan Asset Building Coalition (ABC). Working to advance the ABC Policy Agenda, the ABPP actively engages policymakers and stakeholders to support public policy that increases access to higher education, career-advancement and job-training opportunities, improves personal economic and finance skills, and empowers low-wage workers and families to escape poverty through the building and development of personal assets.

The Michigan Asset Building Coalition is a diverse, bipartisan alliance of nonprofit, for-profit and governmental organizations, institutions and individuals actively engaged in supporting effective strategies to reduce asset poverty and help working families achieve lasting and sustainable financial security.

CEDAM is a nonprofit organization representing over 370 organizations and individuals committed to rebuilding our neighborhoods and revitalizing communities throughout Michigan. It is a voluntary association of primarily community development corporations (CDCs), community action agencies, and other nonprofits that provide affordable and supportive housing to our neediest citizens, encourage downtown and commercial corridor revitalization, provide workforce and entrepreneurship training, and help families develop and maintain assets to better their lives. CEDAM members provide these services in every county in Michigan—in both urban and rural areas.

In March, members of CEDAM and the statewide Asset Building Coalition visited their legislators to discuss the impact that predatory lending practices have on the working families they serve.

Our members provide many services to low- and moderate-income families, including tax preparation through Volunteer Income Tax Assistance (VITA) programs. They see families struggling to make ends meet, especially in today's economy, and would like to help them keep more of their hard-earned dollars in their pockets.

Every year during tax season, thousands of Michigan taxpayers pay millions of dollars in fees to receive a high-interest, short-term loan for the anticipated amount of their income tax refund through products called refund anticipation loans (RALs). RALs can cost from $30 to over $125 in loan fees, plus in some cases an additional "application" or "document processing" fee up to $40 at an annual percentage rate (APR) from about 40 percent to over 500 percent. In 2007, approximately 8.7 million taxpayers nationwide lost a portion of their refund to RALs, which amounts to about $833 million in loan fees and another $68 million in related fees.

RALs, which are offered by professional tax preparers, are often deceptively marketed as "rapid refunds" and not as loans. As a result, consumers are often unaware that the money they receive is a loan and not their actual refund, and that there are some very high costs and fees associated with the loan. This predatory lending practice exposes taxpayers to the risk of unmanageable debt if their refunds do not turn out to be as much as the loan—the consumer is responsible for repaying the loan no matter how much their refund is. If the loan is unpaid, then it will go to a debt collector and harm the person's credit.

Furthermore, RALs target low-income and working poor families, who need the resources most. IRS data shows that over 60 percent of all RAL borrowers are Earned Income Tax Credit (EITC) recipients, despite the fact that EITC recipients make up only 17 percent of taxpayers.[1] From this data the National Consumer Law Center and the Consumer Federation of America estimate that 5.9 million working poor families spend over $600 million in RAL fees.

Ultimately, it is up to the consumer to decide whether or not the high costs and fees often associated with RALs are worth the immediate access to their income tax return. In some cases, the immediate need of cash brought on by an emergency may be worth the cost, despite conventional wisdom or financial prudence. However, the current lack of disclosure does not always allow a consumer to make an informed decision; correcting this is the intent of House Bills 4166 and 4607.

To better inform taxpayers, and especially low-income families, we support HB 4166, which would require the disclosure of the following information:

- All interest, fees and hidden costs associated with RALs
- That a RAL is a loan and not a refund
- That the taxpayer could file electronically without applying for the RAL to expedite processing time
- The estimated time a refund would take to be issued by the government (usually 8-12 days)
- That there is no guarantee that the refund will equal what is on the tax form
- That the taxpayer is responsible for the difference if the tax form is not correct

We also support HB 4607, which would accomplish the following:

- Prevent facilitators or lenders of RALs from requiring a consumer to enter into an RAL to complete a tax return
- Prevent facilitators or lenders of RALs from misrepresenting a material factor or condition of granting a RAL
- Require facilitators or lenders of RALs to process the application for an RAL after an applicant applies
- Prevent any fraudulent transaction, practice or course of business with any person in connection with a RAL
- Allow a borrower to rescind a RAL before the close of the next business day after the loan is made

This legislation does not ban RALs. Rather, it seeks to inform consumers so that they can make educated decisions regarding their personal finances and protect themselves from the predatory practices of some less-than-scrupulous individuals in the financial service industry.

There are currently 14 states[2] that have passed laws to regulate RALs—without regulation it is expected that interest rates and fees will continue to rise. And, with so many families experiencing financial hardship in these times, it is important that we ensure that every hard earned dollar is not lost to unnecessary costs and fees. Therefore, we support HB 4166 and HB 4607 and encourage your swift action to protect Michigan families.

Thank you, Mr. Chairman and members of the committee.

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[1] All data from National Consumer Law Center/Consumer Federation of America 2007 and 2008/2009 RAL Reports

[2] California, Connecticut, Illinois, Minnesota, Nevada, New Jersey, New York, North Carolina, Oregon, Tennessee, Texas, Virginia, Washington State, and Wisconsin